

**Rating Action: Moody's assigns (P)B2 ratings to Condotte; outlook stable**

---

Global Credit Research - 27 Apr 2015

Frankfurt am Main, April 27, 2015 -- Moody's Investors Service has today assigned a (P)B2 corporate family rating to Societa Italiana per Condotte d'Acqua S.p.A. (Condotte). Concurrently, Moody's assigned a provisional (P)B2 rating to the proposed EUR300 million senior unsecured notes. The outlook on the ratings is stable. This is the first time that Moody's has rated Condotte.

Moody's issues provisional ratings for debt instruments in advance of the final sale of securities or conclusion of credit agreements. Upon the successful closing of the bond issuance and a conclusive review of the final documentation, Moody's will endeavour to assign a definitive rating to the different capital instruments. A definitive rating may differ from a provisional rating.

**RATINGS RATIONALE**

Condotte's (P)B2 corporate family rating reflects the company's strong order backlog, equivalent to approximately 3.4 years of current revenue, supporting ongoing revenue growth and expectations of profit margin improvement. The current rating also reflects Moody's expectations of an improvement in leverage below 5.0x in the next 12-18 months, from 6.3x at the end of December 2014, based on Moody's adjusted figures. Moody's adjustments mainly relate to pensions, operating leases and financial guarantees and follow the recent change in OIC 23 of the Italian GAAP.

Given the currently less than ample liquidity of the company, the (P)B2 CFR also incorporates the expectation that Condotte will successfully place the envisaged bond. Based on this assumption, Moody's considers Condotte's liquidity profile as adequate. At the end of 2014, the company had cash on balance sheet of EUR 161 million. Assuming minimum cash at 3% of revenues, available cash was around EUR120 million. The proposed transaction of EUR300 million is intended to refinance EUR274 million of outstanding bank loans, and thereby rolling over its portion of short-term maturities by granting additional EUR20 million as cash. Nevertheless, we expect that cash generation will not be strong enough to cover consistently its debt maturities and capex. Following the bond issue, the company will sign a committed revolving credit facility of EUR50 million, with, however, a very short maturity of 18 months. On top of this, we note that Condotte currently has also access to EUR300 million short term credit lines, which we do not include in our liquidity forecast, given the uncommitted character of these lines. We also note that the company has currently EUR940.5 million of performance or advance payment guarantees outstanding under uncommitted credit lines. Availability of lines for letters of guarantee are essential for the construction business, and any reduction in these lines could have an adverse effect on the company's orderbook or liquidity position.

The main constraints to the rating are represented by the limited diversification of the company's order backlog, with the largest project currently representing approximately one fifth of the value of the construction backlog (as of December 2014), its currently high leverage (based on Moody's calculations) for the (P)B2 rating, historically negative free cash flow generation (after capex for acquisitions and all non recurring capex) on average over the last four years, and the strong growth over the past three years (turnover grew from EUR765 million in 2011 to EUR1,125 billion in 2014). Exposure to the weak Italian economy -- around a third of the construction backlog at the end of 2014 -- is also constraining Condotte's rating.

The stable outlook factors in expectations that Condotte's leverage will improve in the next 12-18 months, as evidenced by a projected debt/EBITDA at approximately 5.0x (Moody's adjusted) at the end of 2015, down from 6.3x (Moody's adjusted) at the end of 2014.

**What Could Change the Rating -- Up**

Positive rating pressure could develop if the company's leverage was expected to improve, as evidenced by debt/EBITDA expected to fall towards 4x on a sustained basis, and if the company was able to sustainably generate positive free cash flows above 5% of gross (Moody's adjusted) debt. For a rating upgrade we would also expect improved business risk profile in terms of less project concentration and more regional diversification. A rating upgrade would also require solid liquidity levels.

## What Could Change the Rating -- Down

Negative rating pressure could develop if the company's debt metrics were expected to deteriorate, as evidenced by debt/EBITDA (as adjusted by Moody's) above 5x or EBIT/Interest expense (as adjusted by Moody's) below 2.0x. Negative pressure could also develop if we anticipated significantly negative free cash flows (as adjusted by Moody's) or liquidity to deteriorate.

The principal methodology used in these ratings was Construction Industry published in November 2014. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

Headquartered in Rome, Italy, Condotte is a construction company with consolidated revenue of EUR 1.2 billion in 2014. The company operates as an engineering, procurement and contractor company (EPC) in Italy and abroad, primarily in tunneling works and high speed railway construction projects. Condotte is the third largest construction company in Italy by revenue and has expanded its activities outside its domestic market since 2008. At the end of 2014, the group had 5,691 employees. Condotte was established in 1880 and is indirectly controlled by the Bruno Tolomei family through Ferfina, SpA, an intermediate holding company.

## REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see [www.moody.com](http://www.moody.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for additional regulatory disclosures for each credit rating.

Matthias Heck  
Vice President - Senior Analyst  
Corporate Finance Group  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Matthias Hellstern  
MD - Corporate Finance  
Corporate Finance Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:  
Moody's Deutschland GmbH  
An der Welle 5  
Frankfurt am Main 60322  
Germany  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454



© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives,

licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.